

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

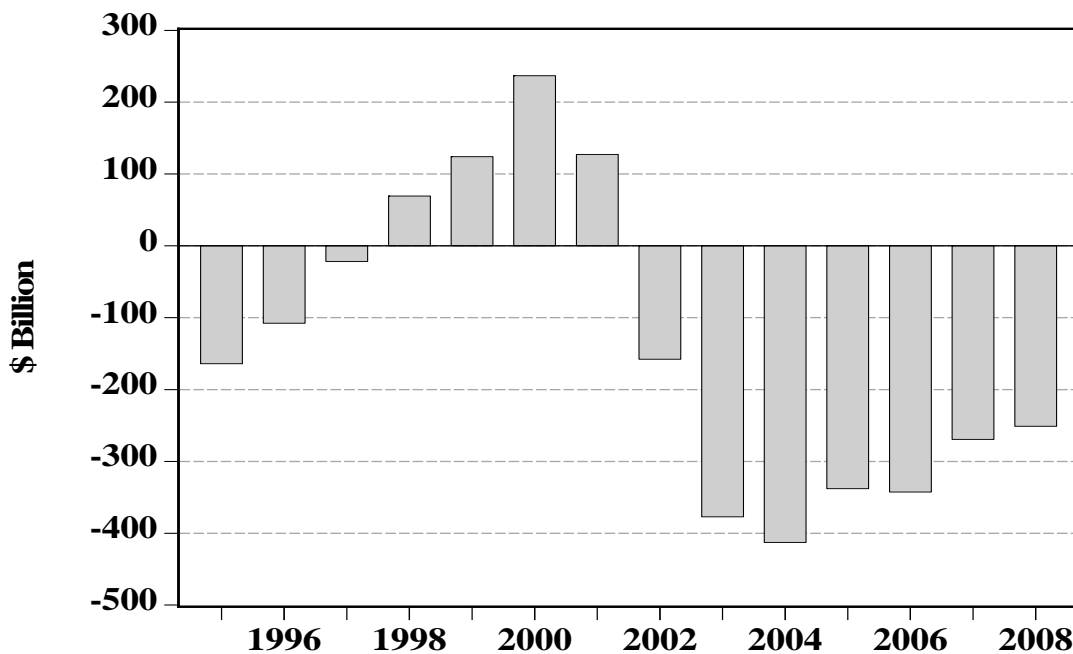
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- Forecast 2005-2008
- Housing Markets and Demographics
- Alternative Forecasts

U.S. Federal Government Surplus Unified Basis



Source: Global Insight

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**IDAHO
ECONOMIC
FORECAST
2005 - 2008**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the September 2005 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the June 2005 Global Insight baseline national forecast.

One of Hurricane Katrina's victims is the federal deficit. Up until the time the nation's costliest storm made landfall, it appeared the unified federal budget deficit would shrink in fiscal year 2006. As the cover chart shows, the huge government outlays resulting from the hurricane will once again send the deficit south. However, this should be a temporary setback, and the federal deficit should begin shrinking again beginning in fiscal year 2007.

FEATURE

The article entitled "Housing Markets and Demographics" is featured in this edition of the *Idaho Economic Forecast*. John Krainer, an economist with the San Francisco Federal Reserve Bank, wrote this article. Several factors have been cited for the U.S. housing sector's recent strength. These include low mortgage interest rates, high income growth, and strong price appreciation. With all the attention focused on these factors, other important factors have not received the attention they deserve. Mr. Krainer's article sheds much-needed light on one of the fundamental forces that has and will continue to shape the housing industry: demographics.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1991 to 2008 and for every quarter from 2003 through 2008. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2005.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical employment data used in this forecast was provided by the Idaho Department of Commerce and Labor and was seasonally adjusted by the Idaho Division of Financial Management (DFM). The data consists of final employment estimates through the first quarter of 2005 and preliminary data for the second quarter of 2005. These data show Idaho nonfarm employment was 604,700 in this year's first quarter and 608,300 in the second quarter. Both were much higher than had been forecast in July 2005. Specifically, it was previously reported there were an estimated 597,800 jobs in the first quarter of 2005 and a projected 601,300 jobs in the second quarter of 2005. Once again, this improvement reflected the strength of the state's construction sector. The current data show this sector's employment was 1,600 higher in the first quarter of 2005 than had been reported in July 2005 and its second quarter employment was 2,600 higher than had been previously forecast.

The tables in this forecast include the U.S. Bureau of Economic Analysis' September 2005 estimates of Idaho quarterly personal income through the second quarter of 2005. Not only has an additional quarter of data been added to the personal income data, but the data have also been revised back through 2002. While data are routinely revised, there have been significant changes to some of these data that need to be pointed out. This can be seen by comparing the previous BEA Idaho personal income release to the current release.

Current Idaho nominal personal income is \$558 million lower in 2002, \$748 million lower in 2003, and \$481 million lower in 2004 compared to the previous estimates. Revisions to nonfarm proprietors' income and dividends, interest, and rent income accounted for most of the changes.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.idaho.gov.

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